

Statement of Congressman Ron Paul

United States House of Representatives

Statement on HR 1424

October 3, 2008

Madame Speaker, only in Washington could a bill demonstrably worse than its predecessor be brought back for another vote and actually expect to gain votes. That this bailout was initially defeated was a welcome surprise, but the power-brokers in Washington and on Wall Street could not allow that defeat to be permanent. It was most unfortunate that this monstrosity of a bill, loaded up with even more pork, was able to pass.

The Federal Reserve has already injected hundreds of billions of dollars into US and world credit markets. The adjusted monetary base is up sharply, bank reserves have exploded, and the national debt is up almost half a trillion dollars over the past two weeks. Yet, we are still told that after all this intervention, all this inflation, that we still need an additional \$700 billion bailout, otherwise the credit markets will seize and the economy will collapse. This is the same excuse that preceded previous bailouts, and undoubtedly we will hear it again in the future after this bailout fails.

One of the most dangerous effects of this bailout is the incredibly elevated risk of moral hazard in the future. The worst performing financial services firms, even those who have been taken over by the government or have filed for bankruptcy, will find all of their poor decision-making rewarded. What incentive do Wall Street firms or any other large concerns have to make sound financial decisions, now that they see the federal government bailing out private companies to the tune of trillions of dollars? As Congress did with the legislation authorizing the Fannie and

Freddie bailout, it proposes a solution that exacerbates and encourages the problematic behavior that led to this crisis in the first place.

With deposit insurance increasing to \$250,000 and banks able to set their reserves to zero, we will undoubtedly see future increases in unsound lending. No one in our society seems to understand that wealth is not created by government fiat, is not created by banks, and is not created through the manipulation of interest rates and provision of easy credit. A debt-based society cannot prosper and is doomed to fail, as debts must either be defaulted on or repaid, neither resolution of which presents this country with a pleasant view of the future. True wealth can only come about through savings, the deferral of present consumption in order to provide for a higher level of future consumption. Instead, our government through its own behavior and through its policies encourages us to live beyond our means, reducing existing capital and mortgaging our future to pay for present consumption.

The money for this bailout does not just materialize out of thin air. The entire burden will be borne by the taxpayers, not now, because that is politically unacceptable, but in the future. This bailout will be paid for through the issuance of debt which we can only hope will be purchased by foreign creditors. The interest payments on that debt, which already take up a sizeable portion of federal expenditures, will rise, and our children and grandchildren will be burdened with increased taxes in order to pay that increased debt.

As usual, Congress has show itself to be reactive rather than proactive. For years, many people have been warning about the housing bubble and the inevitable bust. Congress ignored the impending storm, and responded to this crisis with a poorly thought-out piece of legislation that will only further harm the economy. We ought to be ashamed.